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CENTRAL INTELLIGENCE AGENCY

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REPORT NO.

INFORMATION REPORT

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COUNTRY China/Hong Kong

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SUBJECT Acquisition of Foreign Exchange by
Chinese Communists

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SUPPLEMENT TO
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1. Payments for official purchases from China are made by irrevocable letter of credit to the Hong Kong and Tientsin branches of the Bank of China, and occasionally to the Peiping branch. Most sales through Hong Kong are made in U.S. dollars, sterling or Hong Kong dollars, all of which are immediately convertible to any exchange or to gold. Prices asked by the Chinese are based on the Hong Kong market rates for the various currencies. Guarantees by the Communist Government against delivery are backed by the Bank of China in U.S. dollars.
2. It is impossible to get exact figures on the amount of foreign exchange in dollars and sterling that Communist China is obtaining in order to purchase equipment and machinery. Recently there was a rise in sterling because the Chinese Communists were buying large amounts to obtain machinery and equipment from London.
3. Both the Nationalists and the Communists are dumping silver in Hong Kong in an attempt to get foreign exchange.* The silver is being shipped back to the United States in such large amounts that it caused a fall in the New York market price for silver. Much of the silver was imported from Mexico (31,000,000 ounces in 1949) and the United States when the price was higher in the Far East than in New York. Now it is the reverse.
4. In January and February the Chinese Communist Government sold 2,000,000 ounces of silver, mostly Chinese coins, through Hong Kong. Most of this was sold to the United States by the following firms for their own accounts: Wing Lung Bank; Kan Koam Ching & Company, Ltd.; Lui Hing Hop Bank; and Po Sang Bank. The Far East Commodity Corporation of Hong Kong, which is a New York firm, also handles silver.
5. Relatively small amounts of gold (2-6,000 ounces at a time) have been sold in Hong Kong for the account of the Chinese Communist Government by the Po Sang Bank and Khio Luen Bank. The Communists have not been as strict with the Canton gold market as with the one in Shanghai, and Shanghai operators say that the Communist Government has sold gold in Canton for Hong Kong dollars, in some cases dumping the gold.

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6. Exports are the largest source of foreign exchange for the Communists. Hong Kong informants say that exports to countries other than the USSR in February and March averaged about US \$2,500,000 to US \$3,500,000 a week, but that imports were about US \$5,000,000 a week. Most of the deficit is believed to be made up from exports to the USSR, for which the Communists receive dollars and convertible sterling. Informants say that about half of the North China exports are going to the USSR, but most Communist imports (except war material) come through Hong Kong.
7. The deficit is also made up by dumping silver and gold in Hong Kong and from remittances.
8. The barter system, which was used at first by the Communists, has now been abolished generally, although a few unimportant articles, such as vegetables and embroidery, are still bartered.
9. All foreign exchange must be surrendered to the Central Bank of China against exports, and must be arranged before an export permit is obtained.
10. There is no doubt that the Communists are making every effort to increase the amounts of exports in order to obtain foreign exchange. At the same time they are not exporting as fast as possible because they are trying to make certain that the government, and not the individual, receives the foreign exchange.
11. The Communists also get the benefit of all remittances transmitted through Chinese Communist banks, who pay the recipient in local currency. Official remittances through Hong Kong amount to about US \$40,000 to US \$100,000 a week.